HOUSING MARKET OUTLOOK

Gatineau CMA

Canada Mortgage and Housing Corporation

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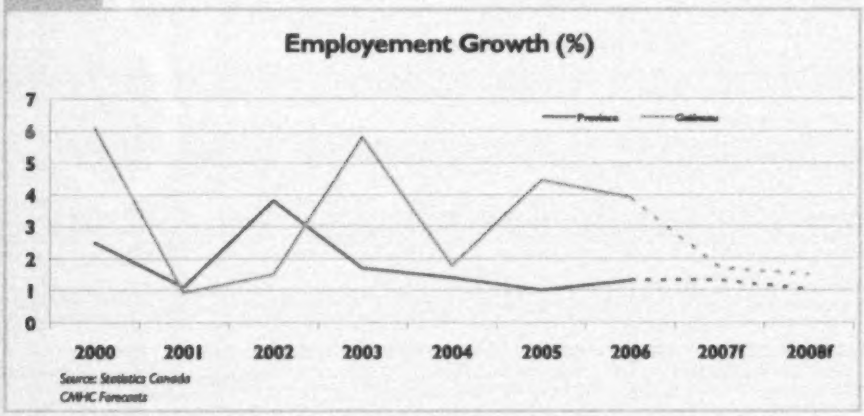
Economic conditions still favourable but slowdown in sight

In Quebec, it is expected that economic growth will be more moderate over the next two years. This slowdown will also result in weaker employment growth at the provincial level. The Gatineau area has registered a few years of strong employment growth. However, while the labour market will remain vigorous, particularly thanks to the service sector, a slowdown is expected over the coming years.

Employment growth will reach 1.7 per cent in 2007 and 1.5 per cent in 2008, after two strong increases in 2005 and 2006 (4.5 per cent and 3.9 per cent). Gatineau is, all in all, a very dynamic area and, since 2003, has even had a higher employment growth rate than the province of Quebec overall or Ottawa. The vigour observed in 2006 could incite some people who had been inactive to return to the labour market. It would

Figure 1



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therefore not be surprising to see the unemployment rate rise slightly, but this rate will remain relatively low over the coming months, at about 6 per cent.

Mortgage rates to stay low

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008. Over the next twelve months, short-term mortgage rates will also ease, in tandem with the prime rate, while long-term rates will rise slightly, as bond yields edge up. One-, three- and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00 and 6.25-7.25 per cent ranges, respectively.

Gatineau still attractive but...

The dynamic labour market in Gatineau had a major impact on migration in the area. In fact, many people from other provinces and even other countries came to settle in the area. For some time, however, Gatineau has been attracting slightly fewer people from other provinces, and this trend should continue over the coming years. If Gatineau attracts so many people from outside Quebec, it is partly because of its geographic situation. In fact, many of these people come from Ontario and, more particularly, from Ottawa. While the competitive prices of homes in Gatineau continue to attract people from Ottawa, it can be noted that the number of people coming from the other side of the river is declining. Net migration is therefore expected to remain positive but slightly lower over the coming years.

Resale market: Another record in 2007

The strong employment growth in 2005-2006 will continue to have positive impacts on the resale market this year. Thanks to these economic conditions, the price hike will not overly cool down demand. In addition, since buyers have a wide choice, they will easily a home in line with their needs and financial capacity. Transactions are expected to rise by 2 per cent in 2007.

However, the expected slowdown on the labour market, combined with higher prices, will end up curbing the enthusiasm of buyers. Sales should therefore fall in 2008, but by only 2 per cent.

The number of existing homes for sale has been rising sharply for several years. Listings should continue to increase, despite the high volume of sales. In fact, some homeowners will want to take advantage of the vigorous market conditions to get a good price for their property. From now until 2008, listings will grow at a similar pace as in recent months. Following increases of 29 per cent in 2005 and 5 per cent in 2006, listings should rise by 3 per cent to 4 per cent over the next two years.

The significant rise in listings was largely attributable to an increased supply of single-detached houses. This result was not surprising, as Gatineau is an area where single-detached homes dominate. At the time of the 2001 Census, this type of housing accounted for nearly half (49 per cent) of the total housing stock.

Balanced market on the horizon

After bottoming out in 2002, the number of sellers per buyer has since been back on the rise and should keep rising over the coming months. For the moment, sellers therefore still have an edge during negotiations but, by 2008, buyers should be able to negotiate more.

The change in the relationship between sellers and buyers will cause existing home prices to rise less rapidly. However, a more considerable supply of upscale homes on the market could result in another strong increase in the average price in 2007.

New home market: Housing starts to decline

Since fewer people should come to settle in Gatineau, it can be expected that the need for new housing will decline over the coming years.

In addition, after having benefited from the relative scarcity of "For Sale" signs, providers of new homes will now have to contend with the opposite phenomenon. With more choice on the resale market, and given that new homes are generally more expensive than existing homes, fewer buyers will be tempted to have a home built in order to get a dwelling in line with their needs.

It is therefore estimated that 2,700 housing units will be started from now until the end of the year, or 8 per cent fewer than in 2006. Next year, a

comparable decrease is anticipated (-7 per cent).

In addition to the weaker demand new housing, another demographic change can be noted: the population is getting older. The aging of the population is taking place gradually over the long term. But the fact that the first baby boomers will reach the age of retirement in four years is further highlighting this reality. This phenomenon may bring about changes in the nature of the housing needs. Certain types of housing might be less in demand. For example, large two-storey single-detached houses may no longer suit older couples. On the other hand, there could be a more significant demand for apartments in retirement homes.

Intensification in sight

Another change is also occurring in the area. This past October, the City of Gatineau adopted a housing policy, to be implemented gradually from now until 2011. This policy should have direct impacts on residential construction in Gatineau, on both the types of dwellings built and their location. However, several means to apply this policy are still being studied and will depend on the commitment of other government authorities. In particular, the City wants to encourage the development of residential projects near public transit corridors (Rapibus project) through a zoning by-law that will promote an increase in density. Other measures, like the implementation of special programs, could boost construction in certain sectors (for example, grants to builders for projects with 20 or more units downtown). The City also plans to introduce a land purchase program to allow for the construction of 700 social housing units by 2011.

Multi-family housing to move ahead

In this environment, a change can be expected in the types of dwellings built. While single-detached houses represented the lion's share of housing starts in the area, they will now make room for semi-detached and row homes. In the central sectors, like Hull, apartment buildings (condominium or rental) will also account for a significant portion of the activity. Just like in 2005 and 2006, many retirement apartments will be added to the Gatineau rental housing stock. It can be expected that more than half of the new apartments will be intended for seniors.

In 2007, there should be 900 single-detached home starts, for a decrease of 23 per cent. Starts of multi-family dwellings (semi-detached and row homes and apartment buildings), on the other hand, will increase by 2 per cent. In 2008, the decline will continue for single-detached houses (-6 per cent), and the vigorous activity in the multi-family housing segment should start to wane (-8 per cent).

Rental market: Slight changes for vacancy rate

The low vacancy rate observed at the beginning of the decade encouraged the construction of rental apartments in recent years. If the vacancy rate went back up, it was the result of the construction of rental housing projects, combined with the wave of homeownership.

Since the vacancy rate reached 4.2 per cent last fall, a decrease in the construction of apartments, at least in privately initiated conventional projects, should therefore be expected.

In the fall of 2006, only 0.4 per cent of the apartments in retirement homes were unoccupied. Demand is therefore present, and residential construction will be supported in part by this market segment.

With the sales remaining steady in 2007 and the raise in the construction of apartments for seniors, it can be expected that vacancy rate will rise slightly for conventional apartments. Next fall, this rate should therefore reach 4.5 per cent. However, homeownership will be somewhat held back by the weaker job market and higher prices in 2008. The vacancy rate should then fall slightly and attain 4.3 per cent at the end of 2008.

Forecast Summary Gatineau CMA Spring 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	4,039	4,076	4,202	4,300	2.3	4,200	-2.3
MLS® New Listings	1,622	2,085	2,188	2,275	4.0	2,350	3.3
MLS® Average Price ($)	154,197	164,109	172,527	179,000	3.8	183,000	2.2
New Home Market							
Starts:							
Single-Detached	1,561	1,192	1,171	900	-23.1	850	-5.6
Multiples	1,666	931	1,762	1,800	2.2	1,650	-8.3
Starts - Total	3,227	2,123	2,933	2,700	-7.9	2,500	-7.4
Average Price ($):							
Single-Detached	196,088	208,262	212,375	217,000	2.2	220,000	1.4
Semi-Detached	128,282	138,058	141,056	144,000	2.1	146,500	1.7
Median Price ($):							
Single-Detached	189,500	197,000	200,000	204,000	2.0	206,000	1.0
New Housing Price Index (% chg.) (Ottawa-Gatineau)	6.6	4.6	3.1	3.3	-	2.8	-
Rental Market							
October Vacancy Rate (%)	2.1	3.1	4.2	4.5	0.3	4.3	-0.2
Two-bedroom Average Rent (October) ($)	663	660	667	675	1.2	680	0.7
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6	0.1	6	-0.1
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7	0.2	7	0.2
Annual Employment Level	147,600	154,200	160,200	163,000	1.7	165,500	1.5
Employment Growth (%)	1.7	4.5	3.9	2	2.2	2	-0.2
Unemployment rate (%)	6.6	6.7	5.6	6 -		6 -	
Net Migration	3,427	3,029	2,901	2,500	-13.8	2,000	-20.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Chambre immobilière de l'Outaouais (MLS®), Statistics Canada (CANSIM)

* For the moment, CMHC's forecast does not yet take into account the new Gatineau by-law providing for the transfer of the costs for burying cables (electricity, telephone, cable television) to builders. CMHC will examine this issue over the coming months.

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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